



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Williams Unified School District No. 2

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
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October 24, 2005

Governing Board
Williams Unified School District No. 2
P.O. Box 427
Williams, AZ 86046-0427

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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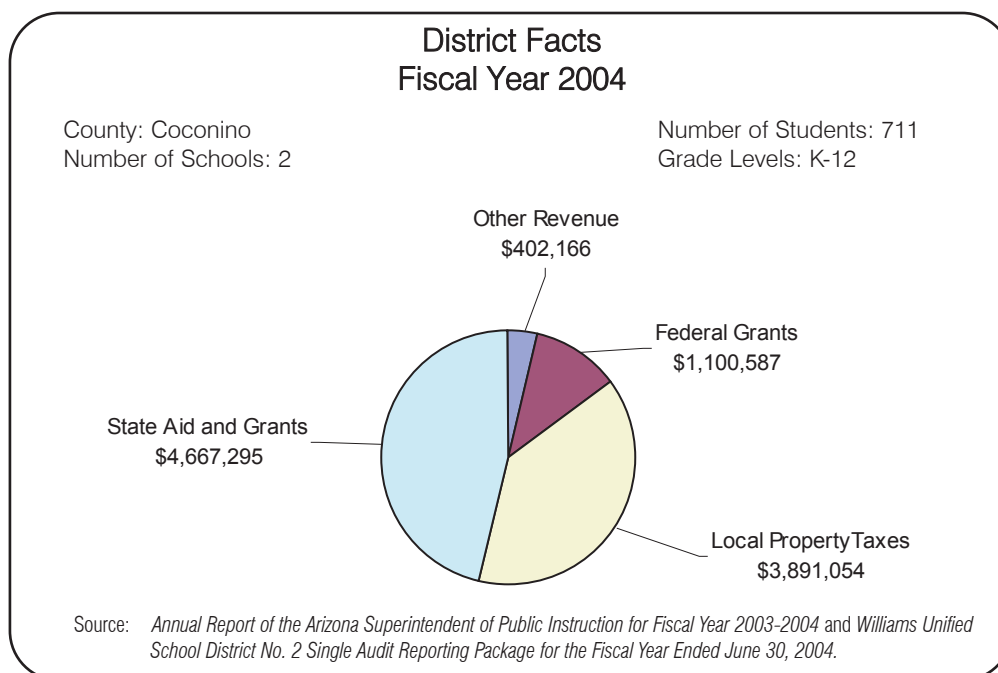
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INTRODUCTION

Williams Unified School District No. 2 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$10 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should strengthen controls over student activities monies

Eleven student activities club accounts were overdrawn at year-end, and evidence of student approval was not always maintained.

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, the District made inappropriate purchases, did not retain documentation supporting student approval for disbursements, and did not always obtain two signatures on checks drawn on the student activities checking account. Further, the District did not always prepare reports to reconcile sales to cash collected.

In addition, several student activities clubs had negative cash balances at year-end. Also, the District did not ensure that the total of student activities club cash balances agreed with the checkbook balance, and that the account was reconciled to the bank statements in a timely manner. Finally, the District did not submit a report of cash receipts, disbursements, transfers, and cash balances for the Student Activities Fund to the Governing Board monthly.

Recommendations

To strengthen controls over student activities monies, the District should establish and follow the policies and procedures listed below:

- Close invalid student activities clubs and transfer remaining balances to the appropriate funds.
- Require that the student council approve disbursements of monies raised through the efforts of the student body as a whole. Disbursement of monies raised through a specific student club's efforts must be approved by that club. The student council and clubs should document approval in meeting minutes.
- Ensure that checks are signed by two persons, one of whom must be either the student activities treasurer or an assistant student activities treasurer and another person authorized to sign by the Governing Board.
- Require that student clubs prepare cash collection reports to document and reconcile cash collections to tickets or items sold.
- Verify that individual student clubs have sufficient cash balances before authorizing disbursements.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

- Prepare written bank reconciliations monthly (preferably 10 days after receiving the statements) and ensure that the total cash balances of all clubs agree with the checkbook balance. Make all necessary corrections for reconciling items.
- Prepare a report of cash receipts, disbursements, transfers, and cash balances, and submit it to the Governing Board monthly.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records and annual financial report (AFR) are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District inappropriately used Maintenance and Operation (M&O) Fund monies to make a capital lease payment and did not classify some capital lease payments and travel expenditures in accordance with the USFR Chart of Accounts. Further, the District did not always follow the appropriate rules when entering into leases. Finally, the District did not close its accounting records in a timely manner, and its AFR did not agree with district accounting records.

The District did not always classify expenditures properly in its accounting records.

Recommendations

The following policies and procedures can help the District record and report accurate financial information:

- Do not use M&O monies for capital purposes.
- Classify and record all transactions in accordance with the USFR Chart of Accounts.
- Only enter into contracts of 5 years or less for materials or services in accordance with *Arizona Administrative Code R7-2-1093*.
- Prepare an advice of encumbrance for liabilities payable as of June 30 for all levy funds, and close accounting records at the end of the 60-day encumbrance period.
- Require a second employee to verify that amounts reported on the AFR agree with the District's accounting records before it is submitted to the County School Superintendent and ADE.

USFR §III provides guidance for classifying financial transactions.

The District must follow competitive purchasing requirements

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the procurement rules and USFR guidelines. Specifically, the District did not always include all required information in its invitations for bids. In addition, the District did not obtain oral or written price quotations for all purchases that required them.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish the policies and procedures listed below:

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

- Include all information required by School District Procurement Rules in its invitations for bids.
- Obtain oral price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$5,000 and \$15,000, and written price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

The District should ensure the accuracy of its student attendance records

District attendance records did not accurately reflect dates students entered and withdrew from the District.

The State of Arizona provides funding to districts based on student attendance. In turn, the State requires school districts to accurately record and report student entry and withdrawal dates, attendance, and absences. However, the District's membership and absence records did not agree with the membership and absences reported to ADE and, as a result, the District may not have received the correct amount of state funding. In addition, dates recorded on the student entry and withdrawal forms did not always agree with the entry and withdrawal dates recorded in the District's computerized attendance system.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should perform the following:

- Record and report membership and absences in accordance with ADE's *Instructions for Required Reports*.
- Assign an employee to verify that membership and absences reported to ADE agree with the District's computerized attendance system.
- Document when entry/withdrawal information is entered into the computerized attendance system, and have a second employee verify that entry/withdrawal dates in the attendance system agree with the entry/withdrawal forms.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.